Over the last 25 years, several industrialized economies have had the same experience—a decline in manufacturing employment. Since 1977, manufacturing jobs in the U.S. have fallen 20% and in the U.K. almost 50%. Japan’s manufacturing employment rose steadily until 1992 but has fallen sharply since then. Canada, Taiwan, and Korea are exceptions. In 2003, manufacturing employment dropped in every country charted above except Taiwan.

Productivity growth is often blamed for manufacturing employment’s decline. For instance, manufacturing employment in 2003 decreased most severely in the U.S. (4.7%), the U.K. (4.4%), and Korea (3.6%), three countries where productivity growth was high. In 2003, Korea registered the largest increase in manufacturing productivity (9%). The U.S. posted the second-highest increase (6.8%), well above its average rate of annual productivity growth since 1977 (3.6%). The U.K. also sustained its manufacturing productivity growth (5.5%).

However, rising productivity does not necessarily translate into lower employment, as illustrated by the experiences of Korea and Taiwan since 1977. Korea’s manufacturing growth was interrupted by its 1997 currency crisis; Taiwan’s flattened out in the 1990s.

Compensation costs can also help explain countries’ varying experiences. Since 1977, manufacturing employment has increased in countries with low relative costs (Taiwan and Korea). International differences have narrowed since 1977 because compensation costs grew at higher rates in newly industrialized economies.